

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6107

Tariff filing of Green Mountain Power Corporation)
requesting a 12.9% rate increase, to take effect)
June 22, 1998)

PREFILED SURREBUTTAL TESTIMONY OF
WILLIAM STEINHURST
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

November 13, 2000

Summary: Dr. Steinhurst's testimony discusses the range of rate making options available to the Board in connection with the Hydro Quebec Contract, explains how the proposed settlement of this case relates to those options, discusses several provisions of the proposed settlement, and addresses the testimony of certain GMP rebuttal witnesses.

Prefiled Surrebuttal Testimony
of
William Steinhurst

1 Q. Please state your name and occupation.

2 A. My name is William Steinhurst, and I am the Director for Regulated Utility Planning for
3 the Vermont Department of Public Service ("Department", "DPS"). My business address is
4 112 State Street, Montpelier, Vermont.

5 Q. Have you previously testified in this proceeding?

6 A. Yes.

7 Q. What is the purpose of your testimony?

8 A. My surrebuttal testimony discusses the range of rate making options available to the
9 Board in connection with the Hydro Quebec-Vermont Joint Owners Contract ("the
10 Contract"), explains how the proposed settlement of this case relates to those options, and
11 addresses the testimony of certain rebuttal witnesses of Green Mountain Power ("GMP," "the
12 Company"). I also explain certain of the provisions in the proposed settlement. The proposed
13 settlement is contained in Exh. DPS-Sreb-RPS-2.

14 Q. What options does the Board have regarding prudence disallowance for the Hydro Quebec
15 Contract?

16 A. The Board has already found in Docket 5983 that the Company's management of the
17 Contract has been imprudent. This renders any excess costs attributable to that imprudence
18 subject to disallowance in accordance with traditional rate making principles. The Department's

1 direct case in this proceeding demonstrated that those excess costs amounted to essentially the
2 full amount of the above market costs of the Contract in the rate year.

3 However, the Board has discretion concerning this matter in at least two ways. First,
4 the Board has not yet determined the actual amount of the Contract's costs that are imprudent.
5 While the Department has demonstrated that the full amount of above market costs of the
6 Contract may be attributable to imprudent actions (and disputes the Company's rebuttal
7 witnesses conclusions to the contrary), the Board has broad discretion, within the bounds of the
8 record in the case, as to the ultimate ruling on this matter and as to the methodology used for
9 that ruling. For example, in Docket 5132, the Board had before it various kinds of extensive
10 record evidence on the amount of imprudent costs at issue and relied on its expertise to identify
11 a percentage of the costs at issue that were found imprudent. Second, there is Board precedent
12 for alternative methods for addressing an imprudence disallowance, such as reducing the
13 allowed return on equity or requiring reductions in regulatory asset accounts.

14 Therefore, the Board has discretion to select the size of and method for implementing a
15 prudence disallowance. The range of that discretion encompasses the result embodied in the
16 proposed settlement.

17 Q. What options does the Board have regarding a used and useful disallowance for the Contract?

18 A. Here again, the Board has considerable discretion. The Board has already found in
19 Docket 5983 that the Contract is not used and useful. This renders any excess costs
20 attributable to the Contract subject to sharing in accordance with traditional rate making
21 principles.

22 The Board has discretion concerning this matter in at least the following ways. First, the
23 Board has not yet determined the actual amount of the Contract's above market costs. Second,
24 the Board has discretion as to the manner of sharing the excess costs between ratepayers and

1 the Company. Third, the Board has in the past fashioned various methods for implementing a
2 used and useful disallowance, such as allowing amortization of costs without a return (as in
3 Docket 5132) or reflecting sharing of costs based on a levelized stream of future above market
4 costs (as in Docket 5983).

5 Therefore, the Board has discretion to select the amount and method for implementing a
6 sharing of above market costs under the used and useful test. The range of that discretion
7 encompasses the result embodied in the proposed settlement.

8 Q. Are GMP rebuttal witnesses still disputing the Board's Docket 5983 findings that Contract is
9 imprudent and not used and useful? Or are those GMP witnesses still asserting that in any case,
10 the damages from locking in the Contract were nil?

11 A. It seems they are still asserting both of these positions, although the testimony in places
12 claims not to be doing so. However, for the reasons discussed below, the Board should not
13 accept these contentions and should give no weight to the Company's testimony on these
14 issues.

15 Q. How will you address the rebuttal testimony of the Company's witnesses on the used and useful
16 test.

17 A. I will address some specific assertions of GMP rebuttal witnesses Oliver, Reed,
18 Yardley, and Kessler. In summary, they offer many old arguments that have been considered
19 and rejected by the Board. The few new points that they raise are without merit, and should
20 not cause the Board to reconsider its rate making policy.

21 I then explain that the Contract is uneconomic on a going forward basis, with losses
22 projected to be about \$100 million over its remaining life, and that environmental and risk
23 considerations do not favor the purchase.

1 Q. GMP witnesses Reed and Yardley state that used and useful ratemaking policy will have long
2 term harm. Do you agree?

3 A. No. Reed and Yardley assert that the Board's policy of sharing costs of resources that
4 are not used and useful will threaten the State's overall economic climate. Pfrt. at 22 and 23.
5 My view is quite the opposite. If utilities are allowed to pass through all of the costs of
6 resources, however uneconomic they are, then the electricity rate increases could harm the
7 State's economy. Requiring utility shareholders to bear a fair portion of uneconomic costs will
8 help to provide proper incentives for utility management, and the lower retail electricity prices
9 will be good for the State's economy. Lower electricity prices have a direct benefit to the
10 individual or business that realizes the savings, and then indirect effects as the additional
11 spending flows through the economy.

12 Q. GMP's witnesses apparently believe that investors were surprised with the Board's February,
13 1998, Order. Is that reasonable?

14 A. Reed and Yardley state that before the Board's February, 1998, Order in Docket No.
15 5983, that "investors could not have anticipated that the Board would later apply an economic
16 used-and-useful test to the HQ contract." Pfrt. at 20, lines 21-23. Some shareholders may
17 have been surprised, but if they were they have little excuse. The possibility of a disallowance
18 of costs based upon a used and useful determination was quite clear. The Board had
19 established a set of ratemaking principles for dealing with uneconomic costs, going back at least
20 to its 1987 Order in Docket No. 5132 disallowing costs related to Central Vermont Public
21 Service Company's investment in Seabrook. The Board applied and refined its policy in a
22 series of dockets including 5132, 5630/5631/5632, 5701/5724, and 5810/5811/5812.

23 Moreover, throughout the 1990's investors were warned about the risks associated
24 with purchased power contracts. Moody's Investor Services, for example, issued a "Special

1 Comment" in 1990 that I quoted from an attached as an Exhibit to my prefiled rebuttal
2 testimony in Docket No. 5983.

3 Q. GMP's witnesses present an alternative approach to used and useful for ratemaking. Is this
4 approach reasonable?

5 A. No, it is not reasonable. Reed and Yardley mention the concept (pfrt. at 44), but
6 Kessler explains the proposal in the most detail. The proposal boils down to an argument that
7 used and useful should include consideration of "economically avoidable costs associated with
8 the resource." Pfrt. at 28, lines 13-14. With this approach, a utility would fully recover all costs
9 of prudently managed resources, no matter how uneconomic. Although the language used by
10 Mr. Kessler is different, and although he denies it (pfrt. at 33, line 15 to page 34, line 3), the
11 proposal amounts to nothing more than a prudence standard. This is not and should not be
12 Vermont's ratemaking policy. An economic used and useful standard has been and should be
13 applied by the Board.

14 Q. Does this cover all of the points in GMP's rebuttal filing on used and useful that you disagree
15 with?

16 A. No. GMP's rebuttal filing includes quite a bit of material on used and useful issues.
17 Most of it is simply restating the same arguments that were made in Mr. Reed's Prefiled
18 Testimony in this case, and in the testimony of GMP witnesses Laber, Williamson, and Levy in
19 Docket No. 5983. Those points were addressed in previous testimony by myself and
20 Department witness Biewald, and they were rejected by the Board in no uncertain terms in its
21 order in Docket No. 5983.

22 In that decision, the Board considered and rejected GMP's argument that the used and
23 useful test should not be applied to a purchase. The Board found, "The principles that underlie

1 our application of the used and useful standard to utility investments also apply to purchased
2 power contracts." Order at 257.

3 The Board considered and rejected GMP's argument that the HQ purchase is used and
4 useful because the power is used and sometimes displaces higher cost resources. The Board
5 found that used and useful is a two part standard, that both must be satisfied, and that the
6 "useful" part of the standard means "economic for the purposes it is serving." Order at 259.

7 The Board considered and rejected GMP's argument that application of the used and
8 useful test would create inappropriate and asymmetric risks for shareholders. Order at 260.
9 The Board found that, "Appropriate application of the used-and-useful standard to
10 non-investment expenditures does not create a new set of asymmetric risks for which the
11 company's shareholders have not been compensated." Order at 260.

12 The Board considered and rejected GMP's argument that used and useful could not be
13 applied because of prior regulatory approvals and lack of specific warning. The Board found
14 that such a requirement would place an unnecessary burden upon the Board, and that it "would
15 have the practical effect of again shifting risks to ratepayers that are properly borne by
16 shareholders." Order at 261.

17 Despite the clear statements of the Board in its Order in Docket No. 5983 (and prior
18 orders going back at least as far as its 1987 Order in Docket No. 5132), GMP's witnesses roll
19 out the same arguments in its rebuttal filing in this case.

20 Q. Has anything important changed since the Board issued its February 1998 Order in Docket
21 No. 5983?

22 A. In terms of considerations that would influence whether and how the Board should
23 apply its used and useful policy to GMP's purchase from the Contract, no. There is no new
24 development that should cause the Board to reconsider its ratemaking policy. The projected

1 economics of the purchase have, however, changed somewhat.

2 Q. What has changed with respect to the economics of the purchase?

3 A. Since February, 1998, nearly three years have passed, and the market prices of power
4 in New England have increased. The expected present value of the economic losses of the
5 purchase are lower now for both reasons—the shorter remaining contract period and the higher
6 value of power. Still, the purchase remains badly uneconomic. The above market costs for the
7 period 2000 through 2015 are expected to total roughly \$100 million (in year 2000 present
8 value dollars).

9 Q. Does the purchase have environmental and risk benefits that make it pass the used and useful
10 standard?

11 A. No. GMP's witness Oliver attempts to portray the purchase from HQ as beneficial in
12 terms of its environmental and risk impacts. Neither claim is accurate.

13 Q. What is the Department's response to GMP's rebuttal regarding the damages of GMP's
14 imprudent purchases under the HQ-VJO contract?

15 A. Nothing in GMP's rebuttal changes the Department's views on this issue.

16 Q. Please explain why the GMP rebuttal did not change the Department's view of prudence
17 damages.

18 A. The GMP rebuttal on this issue was not convincing, for a number of reasons.

19 First, while Mr. Oliver purports to estimate damages due to GMP's imprudence, he
20 actually presents no information about the costs of GMP's imprudence in 1999. The Company's
21 rebuttal addresses only the mix of resource GMP might have procured in the early 1990s, not
22 the actual cost of those resources in 1999.

1 Second, the Company's rebuttal witnesses' testimony and analyses contain many
2 errors.

3 Third, much of the material introduced was not new. For example, most of Mr. James's
4 testimony simply reiterates arguments from Mr. Bolbrock's testimony in Docket No. 5983. The
5 Board did not find that testimony convincing in Docket No. 5983, nor should it now. Mr.
6 Oliver's direct in this case relied on Mr. Bolbrock's testimony in Docket No. 5983, and Mr.
7 Chernick's direct rebutted Mr. Bolbrock on many of the same assertions that Mr. James makes
8 in his rebuttal.

9 Fourth, the GMP witnesses on the damages of imprudence could not support many of
10 their assertions.

11 Fifth, while their prefiled rebuttal testimony took many strong stands, the witnesses
12 moderated many of their positions on discovery, leaving little substantive dispute.

13 Q. Please explain the difference between Mr. Oliver's analysis of alternatives to the HQ-VJO
14 contract and the determination of damages due to imprudence.

15 A. The normal process for computing the costs incurred due to an imprudent utility action
16 or decision consists of three steps.

17 A. The finding that a particular decision was imprudent. In the case of the GMP's
18 decision to lock into the HQ-VJO contract, the Board has made that finding, in
19 Docket No. 5983.

20 B. The identification of the actions the utility would likely have taken, if it had
21 avoided the imprudent action, and then acted prudently.

22 C. The determination of the cost of the likely prudent course of action, and the
23 savings compared to the consequences of the imprudent decision.

24 Mr. Oliver's testimony addresses the second step, and may sometimes revisit the first

1 step, but does not address the third step. His analysis is performed only for costs as projected
2 in 1991 and 1992, not as they actually occurred, and only in present-value terms over the life of
3 the contract, not for 1999. Mr. Oliver rejects the entire notion of using current costs as
4 "hindsight."

5 Q. What types of errors affect the conclusions of the GMP rebuttal witnesses on damages of
6 imprudence?

7 A. There are computational, analytical, conceptual, representational, and factual errors.

8 Q. Please provide a few examples of computational errors in the GMP rebuttal.

9 A. The analyses that underlie Exhibit WJO-1 and Tables 1-6 in the text of Mr. Oliver's
10 testimony are affected by numerous computational errors, many of which are severe enough to
11 radically change his results. For example,

12 C Mr. Oliver's spreadsheets sometimes add up the wrong columns, ignoring the costs of
13 some parts of the portfolio.

14 C In some portfolios, Mr. Oliver has assembled resources with greater total capacity than
15 that of GMP's HQ-VJO purchase.

16 C In some portfolios, the total energy generation from firm resources and the spot market
17 is greater than the energy provided by the HQ portfolio.

18 C Mr. Oliver corrected an error from his direct testimony (the use of nominal ratemaking
19 charges for new utility-owned plants over only a portion of their lives), and attempted to
20 levelize the cost of the 2004 combined-cycle plant. Unfortunately, he miscalculated the
21 levelized cost.

22 C Mr. Oliver failed to real-levelize the costs of the 1995 combined-cycle unit and
23 combustion turbine. Since these units have useful lives that exceed the analysis period,

1 Mr. Oliver's use of nominal ratemaking costs overstates the cost of the one portfolio
2 that uses the 1995 combined-cycle and combustion-turbine units.

3 C Mr. Oliver failed to match the inflation rates for the capital costs of the combined-cycle
4 and combustion turbine to the inflation assumptions in the WEFA fuel-price forecast he
5 used.

6 Q. Please provide a few examples of analytical and conceptual errors in the GMP rebuttal.

7 A. Without attempting to be exhaustive, the following list offers some examples:

8 C Mr. Oliver continues to argue that GMP might have selected resources in 1992 based
9 on the WEFA May 1991 fuel-price forecast that GMP had rejected by late 1991.

10 C In computing the average costs of the portfolios without New York purchases, Mr.
11 Oliver leaves in some portfolios with New York purchases. The portfolios he retains in
12 the average are more expensive than those he excludes.

13 C Mr. Oliver includes in his average damage costs portfolios that would have appeared to
14 be barely preferable to the HQ-VJO contract, as well as those that were clearly far
15 superior. Hence, his results do not reflect any kind of average over a range of
16 reasonable decisions.

17 C Mr. Oliver assumes that GMP would purchase spot energy, rather than running oil
18 capacity that it has already purchased and that has energy prices lower than spot.

19 C Mr. Oliver treats all purchases and sales of spot energy as having the same price per
20 kWh, regardless of the shape (e.g., baseload versus off-peak) of the transaction.

21 C Mr. Oliver compares alternatives to the HQ-VJO contract using a societal discount
22 rate, which neither GMP nor anyone else was using for decision-making in the early
23 1990s.

24 C In various computations, including those highlighted in his rebuttal, Mr. Oliver reduces

1 the costs of the HQ-VJO purchase to reflect a 10% non-price credit, a 5%
2 environmental credit, or both, even though neither is applicable to the HQ-VJO
3 contract.

4 C Mr. Oliver discounts the damages of the HQ-VJO purchase to 1991, and compares
5 that to the costs GMP has already written off, discounted to 1999.

6 C Many of Mr. Oliver's portfolios are arbitrary and inefficient, containing excessive
7 baseload, or high-priced resources.

8 C Mr. Oliver continues to overstate the externalities from non-HQ resources. He made
9 the same mistake in his direct testimony, and failed to correct his error or otherwise
10 respond to Mr. Chernick's direct testimony on this issue.

11 C Mr. Oliver argues that GMP might have selected the HQ-VJO contract over
12 alternatives by applying the Massachusetts externality adders, despite the fact that
13 GMP did not accept those adders (and opposed the use of any adders).

14 Q. Please provide a few examples of representational errors in the GMP rebuttal.

15 A. All three witness on prudence damages misstate the significance of data and documents
16 they rely on, and their own computation. For example:

17 C Mr. Oliver miscalculates and understates the values he reports as the "average of the
18 potential savings...over a range of lower-cost portfolios." In some cases, this reduces
19 his reported average damages by a factor of five.

20 C Mr. Oliver uses pipeline charges for delivery of natural gas from Alberta to New
21 England as if they were charges for delivery of natural gas from Louisiana to New
22 England. By combining the high cost of transportation from Alberta with the relatively
23 high wellhead cost in Louisiana, Mr. Oliver overstated the cost of delivered gas from
24 either source.

1 C Mr. James and Mr. Oliver apply higher standards for reliability to transmission from
2 New York than to any other resource including the HQ-VJO contract. Mr. James goes
3 so far as to suggest that GMP could count on purchases from New York only if they
4 were uninterruptible.

5 C Mr. James mischaracterizes transmission planning reports that identify the possible need
6 for future system reinforcements as warnings that imports for New York might be
7 unreliable.

8 C Mr. James mischaracterizes a warning that normal import capacity from New York
9 might decline by 75 MW, from a base of 1550 MW, as a warning that the decline
10 could be 200 MW, from a base of 1200 to 1500 MW.

11 C Mr. James describes data showing up to 500 MW in daily variation in import capacity
12 as reducing GMP's entitlement, without mentioning that the variation in the data almost
13 all represented an increase over rated capacity levels, not a reduction.

14 C Mr. Oliver and Mr. Parmelee describe the normal protective language in proposals by
15 the New York utilities as suggesting that no firm capacity was being offered.

16 C Mr. Parmelee purports to show that no transmission capacity existed across certain
17 internal New York transmission interfaces in 1991. In his calculation, he misrepresents
18 the capacity designated by the NY ISO in 1997 as being grandfathered for utility native
19 load, in excess of local generation and transmission contracts then in effect. In one
20 analysis, he treats the capacity as if it were required to meet load in 1991, in addition to
21 set-asides for a large purchase from HQ. In another analysis, he treats the same data as
22 representing capacity available to Niagara Mohawk in 1991.

23 Q. Please provide a few examples of factual errors in the GMP rebuttal.

24 A. Again, these errors are numerous. A few example from Mr. Oliver's testimony follow:

1 C Mr. Oliver misstates the Board's reasoning for selecting the 10% risk credit for DSM,
2 and incorrectly asserts that the HQ-VJO contract has the same characteristics for
3 which the DSM credit was developed.

4 C Mr. Oliver argues that cancellation of the HQ-VJO contract would have resulted in the
5 cancellation of NUGs in Quebec, but continues to compute the externalities of the
6 contract as if the contract resulted in the flooding of additional reservoirs.

7 C Mr. Oliver overstates the prices of some alternative resources. As noted above, he uses
8 too high a pipeline transportation charge. He also misprices one of the New York
9 proposals, by using the total O&M per kWh of an intermediate oil plant where the
10 proposal would use only the running cost. He has not documented any of the
11 transmission charges he adds to the costs of alternatives.

12 C Mr. Oliver incorrectly dismisses any potential for additional DSM to replace part of the
13 canceled HQ-VJO contract. He fails to recognize that additional DSM would have
14 been cost-effective if the HQ-VJO contract had been cancelled, and especially if GMP
15 had actually used some of Mr. Oliver's assumptions that favor the HQ-VJO contract
16 (e.g., a low discount rate, high externality adders).

17 Q. What resources would GMP have selected in the early 1990s, had it acted prudently, and with
18 due regard for the interests of ratepayers?

19 A. The lowest-cost alternative for replacing the HQ-VJO contract in roughly 1995-2005
20 would have been purchases from other utilities in New England and New York. The arguments
21 of Messrs. Oliver, James and Parmelee notwithstanding, power was available from New York
22 at favorable prices, and NEPOOL has consistently found purchases from New York to be
23 highly reliable.

24 A prudent utility would have selected a mix of purchases, such as those proposed or

1 consummated in 1991-93 by NU, UI, NEPCo, NYSEG, and NiMo. The optimal mix would
2 have included purchases with different pricing formulae, different types of flexibility, and
3 probably different effective periods. Many of the contracts that suppliers signed in this period
4 are highly flexible, allowing for increases and reduction of purchases, as needed.

5 GMP would have planned to replace those purchases with a new baseload gas-fired
6 combined-cycle sometime around the middle of the next decade. That replacement resource
7 would not yet be under contract, and would not affect GMP's costs in 1999. In any case, either
8 in the early 1990s or today, the combination of an intermediate-term purchase in 1995-2005,
9 with new resources thereafter, would be clearly less expensive than the HQ-VJO contract.

10 Q. What would GMP be paying today, had it acted prudently?

11 A. In 1999, the contracts actually entered into by Unitil and various Massachusetts
12 municipal utilities cost between 3¢ and 5.5¢/kWh. The contracts that Burlington Electric
13 negotiated with NU and NYSEG in 1995 fell at the low end of the range. The deals proposed
14 by NU and New York proposals, had GMP negotiated and signed them, would have fallen in
15 the same range. The flexibility of the municipal contracts might have further reduced the overall
16 cost of supply for GMP. The actual market price of energy and capacity during the highest load
17 75% of the hours in 1999 was about 3.9¢/kWh.

18 Due to GMP's imprudence, there is no way to know exactly when GMP would have
19 purchased power, or exactly what mix of resources it would have secured.

20 Over the 3¢ and 5.5¢/kWh range, GMP would have spent \$22,513,440 to
21 \$41,274,640 for the 750,448 MWh it received from Schedules B and C in 1999. Since GMP
22 actually paid \$46,972,000 for that power, prudent power planning in the early 1990's would
23 have saved GMP about \$5.7 to \$24.5 million in 1999. That range represents the plausible
24 range of excess costs in 1999 due to GMP's imprudence in locking into the HQ-VJO contract.

1 Q. How does your testimony address the terms of the proposed settlement?

2 A. Commissioner Sedano's testimony describes the proposed settlement as a whole and
3 most of its terms. He also explains why the settlement should be approved. I will explain a few
4 specific provisions of the proposed settlement. Further below, I will explain how the Board
5 should coordinate approval of the proposed settlement with rulings on key rate making issues
6 that have been in dispute in this proceeding.

7 Q. Please explain how the proposed settlement implements a rate freeze.

8 A. The proposed settlement provides that GMP shall not, except in certain defined
9 circumstances, file for a rate increase prior to April 15, 2002. The effective date for such a filing
10 would, under Vermont law, have to be 45 days after that date. Exh. DPS-Sreb.-RPS-2, para.
11 13. This, plus the "seven month rule," means that such an increase could not take effect prior to
12 2003 unless it were unopposed, in which case it could take effect on or about June 1, 2002.

13 Q. What are those circumstances under which GMP could file a request for a rate increase prior to
14 the end of the rate freeze?

15 A. There are three such circumstances, in addition to a recognition that the proposed
16 settlement would not bar a request in case of an emergency. I will recount each one and explain
17 how it relates to the overall intent of the proposed settlement. I will note that, as Commissioner
18 Sedano testifies, these circumstances merely permit GMP to request an increase and do not
19 ensure that such a request will be granted.

20 The first circumstance is the possibility that GMP's power costs might be significantly
21 higher than the current projections for 2001 and 2002 to the extent that GMP would not remain
22 financially viable. The proposed settlement provision for this circumstance is framed in such a
23 way that only large increases in power costs would trigger the provision and only that power

1 cost increases due to greater than expected load growth would not trigger it.

2 The second circumstance is a major loss of customer load, resulting in revenue loss
3 materially exceeding supply cost savings. Again, such an event would raise the possibility that
4 GMP would not remain financially viable.

5 The third and final circumstance is the implementation of retail choice. Proposals for
6 retail choice have typically contemplated the need for a significant rate case to implement such
7 restructuring items as unbundling of bills, establishment of various charges, methods for dealing
8 with divestiture, retail service providers, and many other particulars. It is usually contemplated
9 that addressing these many items would necessitate a rate case. If retail choice is actually
10 implemented in the Company's service territory, it would be reasonable to expect a rate
11 proceeding would be needed at that time.

12 Q. Please explain the proposed settlement's provision regarding the used and useful test.

13 A. The proposed settlement states that "The Parties [GMP and the DPS] further agree that
14 GMP's share of the HQ/VJO Contract is used and useful." Exh. DPS-Sreb.-RPS-2, para. 21.
15 It should be understood clearly that the Parties intention is that this provision should not be
16 interpreted to extend beyond this proceeding. In other words, (1) the Board should find that the
17 Contract is used and useful, resolving claims under the used and useful test in this proceeding;
18 and (2) the Board should not make any ruling that would affect such claims in future rate cases.
19 It is my understanding and the Department's that GMP and the Department are in agreement
20 on this interpretation of the proposed settlement.

21 Q. Given your testimony above, at this point what should the Board do?

22 A. The Board should approve the proposed settlement, including the provisions regarding
23 the prudence and used and useful tests, and rule that it will exercise its discretion to forbear

1 from imposing any imprudence penalties beyond the provisions contained in the proposed
2 settlement and from imposing in this proceeding any used and useful disallowance beyond the
3 provisions contained in the proposed settlement because the proposed settlement and that
4 forbearance are in the public interest. Commissioner Sedano explains in his testimony why that
5 is the case.

6 Q. Does that complete your testimony at this time?

7 A. Yes.